

NEW MARKET COMMUNITY SCHOOL DISTRICT
NEW MARKET, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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NEW MARKET COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2003 Election)		
Dan Kirsch	President	2004
Alan Brown	Vice President	2005
Rick Cabbage	Board Member	2005
Angela Green	Board Member (resigned)	2003
Jason Harrison	Board Member (appointed)	2003
Marcy Shepard	Board Member	2003
<u>Board of Education</u>		
(After September 2003 Election)		
Dan Kirsch	President	2004
Alan Brown	Vice President	2005
Rick Cabbage	Board Member	2005
Teresa Ganley	Board Member	2006
Jason Harrison	Board Member	2006
<u>School Officials</u>		
Russell Hilker	Superintendent	2004
Cindy Haug	District Secretary/Treasurer	2004
Richard Wilson	Attorney – Property Issues	Indefinite
Elisabeth Reynoldson	Attorney – Education & Policy Issues	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
New Market Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of New Market Community School District, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of New Market Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 11 to the financial statements, during the year ended June 30, 2004, New Market Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2004 on our consideration of New Market Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 13 and 44 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise New Market Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
August 13, 2004

Management's Discussion and Analysis

The discussion and analysis of New Market Community School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ending June 30, 2004. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

** Since this is the first year that requires all activities to be reported on a full accrual basis, a comprehensive comparison to the prior year is not possible.*

Financial Highlights

- The General Fund ending fund balance decreased from \$ 59,197 in fiscal year 2003 to \$ 29,371 in fiscal year 2004.
- The District has experienced stagnant or declining enrollment for several years. It has decreased from 214.6 students in Sept. 1997 to 180.5 students in Sept. 2003.
- Staff reductions of 3.6 full time equivalent positions have occurred over the same time frame to help decrease salary costs and benefits.
- State budget cuts for allowable growth, Phase III, technology and other programs have translated into a loss of nearly \$50,000 for the District.
- This is the first year the District received the REAP grant of \$12,895.
- The District was the recipient of a Fire/Safety Grant which funded needed repairs and equipment to bring us into compliance with State Fire Marshal standards.
- Taylor County passed a one cent local option tax which should generate approximately \$33,000 for the District per year in the Capital Projects Fund.
- Fiscal year 2004 was the first year of a Reading First grant which will be in place for three years. It generated \$34,604.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information.

The basic financial statements present different views of the district:

- District-wide financial statements provide both short-term and long-term information about the District's overall financial status.
- Fund financial statements that focus on individual parts of the District, reporting in more detail than the District-wide statements.
- Governmental fund statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short and long term financial information about the activities the District operates like a business, in our District there is only food service.
- Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

These statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

District-wide Financial Statements

The District-wide statements report information about the district as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The District-wide statements report the District's net assets and how they have changed. Net assets (the difference between the District's assets and liabilities) is one way to measure the District's financial health or position.

* To assess the District's overall health, you need to consider additional non-financial factors such as property tax base and the condition of the school building and facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- 1) **Governmental Activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these areas.
- 2) **Business-type Activities:** The District charges fees to help it cover the costs of certain services it provides. The food service program would be included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the district as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and bond covenants.
- The District establishes other funds to control and manage money for particular purposes, or to show it is properly using certain revenues.

The District has three kinds of funds:

- 1) Governmental funds: Most of the District's basic services are included in governmental funds which generally focus on how cash and other financial assets can be readily converted to cash flow in and out, and the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship (or differences) between them.
- 2) Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's enterprise fund (one type of proprietary fund) is the same as its business-type activities but provide more detail and additional information, such as cash flows. Internal service funds (the other type of proprietary fund) are optional and available to report activities that provide supplies and services for other District programs and activities. New Market does not currently have an internal service fund.
- 3) Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others, such as the Watson Scholarship Fund. The District accounts for outside donations specific to the special purposes of these funds. The District is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operation.

Governmental Activities

Revenues for governmental activities were \$1,540,501 while expenses amounted to \$1,504,481 resulting in an overall net asset increase of \$36,020. The increase in net assets is due mainly to local option sales tax funds which have not been spent yet and capital asset additions acquired with the new Fire Safety Grant we received this year.

The cost financed by users of the District's programs was \$47,965.

Federal and state governments subsidized certain programs with grants and contributions totaling \$254,358.

The net cost of the governmental activities was financed with \$593,570 in property and other taxes, \$8,935 in unrestricted local sources, and \$635,673 in unrestricted state sources.

Business Type Activities

Revenues of the District's business-type activities were \$47,668 while expenses were \$48,846. The School Nutrition Fund is the only program in the District's business-type activities. Revenues were comprised of breakfast and lunch charges, federal and state reimbursements, interest income and miscellaneous receipts.

Individual Fund Analysis

Governmental Fund Highlights

- The District's General Fund balance decreased \$29,826 during the current year due to several factors including declining enrollment, state budget cuts and increasing costs.
- The District's Special Revenue Management Fund balance increased \$20,442 during the current year due to an increase in the tax levy and liability insurance cost increases which were lower than expected.

Proprietary Fund Highlights

- School Nutrition Fund net assets remained basically unchanged with only a \$1,178 decrease in net assets for the year.

Certified Budget

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

- The District's General Fund actual revenues and related instruction expenditures vary from the adopted budget because of the District's practice to budget expenditures at the maximum authorized spending authority. The "unspent balance" is a budgetary concept and does not mean the actual General Fund cash. It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars or actual financial position of the District. During fiscal year 2004, New Market appeared before the School Budget Review Committee to request modified allowable growth because their unspent balance for 2003 was negative. That request was approved.
- In spite of the District's budgeting practice, the certified budget was exceeded by \$15,609 in the instruction area due to the timing of expenditures paid at year end without sufficient time to amend the budget. The District's spending authority was also exceeded at year end.

Capital Assets

At June 30, 2004, the District had invested \$165,951 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, equipment, transportation equipment, and nutrition fund equipment.

The original cost of the District's capital assets was \$600,282. Governmental funds account for \$592,095 with the remainder of \$8,187 in the School Nutrition Fund.

Long Term Debt

At June 30, 2004, New Market Community had no long term debt.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future.

- Declining enrollment. The town is currently working on a housing program to encourage new families to move into our District.
- Open enrollment. This is a huge negative impact on our District. Legislators should be encouraged to look at the damaging effect it is having on many rural schools. In a survey completed by open enroll families – not one problem was found with New Market's instructional program or facilities, all chose open enrollment because it was more convenient for the parents. If this trend continues it will be devastating.
- Salary and benefit settlements which exceed the rate of growth in state funding continue to have an adverse impact on the general fund budget.
- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for our educational programs.
- Increased health insurance costs continue to impact our District.

Contacting the District's Financial Manager

This financial report is designed to provide the citizen's, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need addition financial information, please contact:

Jennifer Graham, District Secretary/Treasurer and Business Manager
New Market Community School District
600 North Lafayette
PO Box 8
New Market, Iowa 51646

712-585-3223

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Basic Financial Statements

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 241,274	\$ 117	\$ 241,391
Receivables:			
Property tax:			
Current year	15,562	-	15,562
Succeeding year	507,172	-	507,172
Income surtax	33,770	-	33,770
Due from other governments	47,483	-	47,483
Inventories	-	2,558	2,558
Restricted ISCAP assets (note 3):			
Investments	282,695	-	282,695
Accrued interest receivable	690	-	690
Capital assets, net of accumulated depreciation (note 4)	164,021	1,930	165,951
Total assets	1,292,667	4,605	1,297,272
Liabilities			
Salaries and benefits payable	73,943	-	73,943
ISCAP warrants payable (note 3)	281,000	-	281,000
ISCAP accrued interest payable (note 3)	1,053	-	1,053
Deferred revenue:			
Succeeding year property tax	507,172	-	507,172
Other	12,179	-	12,179
Total liabilities	875,347	-	875,347
Net Assets			
Invested in capital assets	164,021	1,930	165,951
Restricted for:			
Management levy	130,536	-	130,536
Physical plant and equipment levy	27,063	-	27,063
Other special revenue purposes	3,306	-	3,306
Capital projects	29,253	-	29,253
Unrestricted	63,141	2,675	65,816
Total net assets	\$ 417,320	\$ 4,605	\$ 421,925

See notes to financial statements.

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NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	\$ 731,033	\$ 16,186	\$ 136,209	\$ -
Special instruction	277,280	22,622	37,978	-
Other instruction	22,994	8,070	-	-
	<u>1,031,307</u>	<u>46,878</u>	<u>174,187</u>	<u>-</u>
Support services:				
Student services	89	1,087	2,947	-
Instructional staff services	21,521	-	3,590	-
Administration services	166,595	-	-	-
Operation and maintenance of plant services	133,085	-	-	-
Transportation services	82,460	-	-	-
	<u>403,750</u>	<u>1,087</u>	<u>6,537</u>	<u>-</u>
Non-instructional programs	<u>3,230</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	5,408	-	-	21,006
AEA flowthrough	52,628	-	52,628	-
Depreciation (unallocated) *	8,158	-	-	-
	<u>66,194</u>	<u>-</u>	<u>52,628</u>	<u>21,006</u>
Total governmental activities	1,504,481	47,965	233,352	21,006
Business-Type Activities:				
Non-instructional programs:				
Food service operations	<u>48,846</u>	<u>20,120</u>	<u>27,545</u>	<u>-</u>
Total	\$ 1,553,327	\$ 68,085	\$ 260,897	\$ 21,006

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (578,638)	\$ -	\$ (578,638)
(216,680)	-	(216,680)
(14,924)	-	(14,924)
(810,242)	-	(810,242)
3,945	-	3,945
(17,931)	-	(17,931)
(166,595)	-	(166,595)
(133,085)	-	(133,085)
(82,460)	-	(82,460)
(396,126)	-	(396,126)
(3,230)	-	(3,230)
15,598	-	15,598
-	-	-
(8,158)	-	(8,158)
7,440	-	7,440
(1,202,158)	-	(1,202,158)
-	(1,181)	(1,181)
(1,202,158)	(1,181)	(1,203,339)

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated (note 11)

Net assets end of year

* = This amount excludes the depreciation that is included
in the direct expense of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets			
<hr/>			
Governmental		Business-Type	
Activities		Activities	Total
<hr/>			<hr/>
\$	525,519	\$	- \$ 525,519
	11,468		- 11,468
	33,770		- 33,770
	22,813		- 22,813
	635,673		- 635,673
	1,984	3	1,987
	6,951	-	6,951
<hr/>			
	1,238,178	3	1,238,181
<hr/>			
	36,020	(1,178)	34,842
<hr/>			
	381,300	5,783	387,083
<hr/>			
\$	<u>417,320</u>	\$	<u>4,605</u> \$ <u>421,925</u>

NEW MARKET COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General	Special Revenue Management Levy	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and pooled investments	\$ 59,106	\$ 129,162	\$ 53,134	\$ 241,402
Receivables:				
Property tax:				
Current year	13,856	1,374	332	15,562
Succeeding year	473,954	22,766	10,452	507,172
Income surtax	33,770	-	-	33,770
Due from other governments	41,327	-	6,156	47,483
Restricted ISCAP assets (note 3):				
Investments	282,695	-	-	282,695
Accrued interest receivable	690	-	-	690
	<u>905,398</u>	<u>153,302</u>	<u>70,074</u>	<u>1,128,774</u>
Total assets	\$ <u>905,398</u>	\$ <u>153,302</u>	\$ <u>70,074</u>	\$ <u>1,128,774</u>
Liabilities and Fund Balances				
Liabilities:				
Excess of warrants issued over bank balance	\$ 128	\$ -	\$ -	\$ 128
Salaries and benefits payable	73,943	-	-	73,943
ISCAP warrants payable (note 3)	281,000	-	-	281,000
ISCAP accrued interest payable (note 3)	1,053	-	-	1,053
Deferred revenue:				
Succeeding year property tax	473,954	22,766	10,452	507,172
Other	45,949	-	-	45,949
Total liabilities	<u>876,027</u>	<u>22,766</u>	<u>10,452</u>	<u>909,245</u>
Fund balance:				
Reserved for:				
Phase III	741	-	-	741
State grants	38,480	-	-	38,480
Unreserved:				
Reported in nonmajor Special				
Revenue Funds	-	-	30,369	30,369
Undesignated	(9,850)	130,536	29,253	149,939
Total fund balances	<u>29,371</u>	<u>130,536</u>	<u>59,622</u>	<u>219,529</u>
Total liabilities and fund balances	\$ <u>905,398</u>	\$ <u>153,302</u>	\$ <u>70,074</u>	\$ <u>1,128,774</u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balances of governmental funds	\$ 219,529
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	164,021
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Other long-term assets, including income surtax receivable, are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	<u>33,770</u>
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Net assets of governmental activities	<u><u>\$ 417,320</u></u>
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See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General	Special Revenue Management Levy	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 511,529	\$ 47,362	\$ 34,269	\$ 593,160
Tuition	34,015	-	-	34,015
Other	13,357	761	8,217	22,335
State sources	764,340	50	12	764,402
Federal sources	105,190	-	21,006	126,196
Total revenues	1,428,431	48,173	63,504	1,540,108
Expenditures:				
Current:				
Instruction:				
Regular instruction	728,257	2,776	-	731,033
Special instruction	277,280	-	-	277,280
Other instruction	13,864	-	8,499	22,363
	1,019,401	2,776	8,499	1,030,676
Support services:				
Student services	89	-	-	89
Instructional staff services	17,195	4,326	-	21,521
Administration services	165,630	721	244	166,595
Operation and maintenance of plant services	115,935	15,215	-	131,150
Transportation services	84,931	4,693	6,467	96,091
	383,780	24,955	6,711	415,446
Non-instructional programs	2,998	-	2,089	5,087
Other expenditures:				
Facilities acquisition	-	-	32,817	32,817
AEA flowthrough	52,628	-	-	52,628
	52,628	-	32,817	85,445
Total expenditures	1,458,807	27,731	50,116	1,536,654
Excess (deficiency) of revenues over (under) expenditures	(30,376)	20,442	13,388	3,454

NEW MARKET COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General	Special Revenue Management Levy	Nonmajor Governmental Funds	Total
Other financing sources:				
Sale of equipment	\$ 550	\$ -	\$ -	\$ 550
Net change in fund balances	(29,826)	20,442	13,388	4,004
Fund balances beginning of year, as restated (note 10)	59,197	110,094	46,234	215,525
Fund balances end of year	\$ 29,371	\$ 130,536	\$ 59,622	\$ 219,529

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ 4,004

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 47,566	
Depreciation expense	<u>(15,393)</u>	32,173

Certain income surtax not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the statement of activities.

(157)

Change in net assets of governmental activities \$ 36,020

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2004

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 117
Inventories	2,558
Capital assets, net of accumulated depreciation	<u>1,930</u>
Total assets	<u>4,605</u>
Liabilities	
None	<u>-</u>
Net Assets	
Invested in capital assets	1,930
Unrestricted	<u>2,675</u>
Total net assets	<u>\$ 4,605</u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2004

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ <u>20,120</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	21,766
Benefits	2,861
Purchased services	430
Supplies	23,388
Depreciation	<u>401</u>
	<u>48,846</u>
Operating loss	<u>(28,726)</u>
Non-operating revenues:	
Interest on investments	3
State sources	668
Federal sources	<u>26,877</u>
Total non-operating revenues	<u>27,548</u>
Change in net assets	(1,178)
Net assets beginning of year	<u>5,783</u>
Net assets end of year	\$ <u><u>4,605</u></u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2004

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 16,410
Cash received from miscellaneous operating activities	3,710
Cash payments to employees for services	(24,627)
Cash payments to suppliers for goods or services	<u>(19,493)</u>
Net cash used in operating activities	<u>(24,000)</u>
Cash flows from non-capital financing activities:	
State grants received	668
Federal grants received	23,272
Temporary loans received	11,075
Temporary loans repaid	<u>(11,075)</u>
Net cash provided by non-capital financing activities	<u>23,940</u>
Cash flows from investing activities:	
Interest on investments	<u>3</u>
Net decrease in cash and cash equivalents	(57)
Cash and cash equivalents beginning of year	<u>174</u>
Cash and cash equivalents end of year	\$ <u><u>117</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (28,726)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	401
Commodities used	3,605
Decrease in inventories	<u>720</u>
Net cash used in operating activities	\$ <u><u>(24,000)</u></u>
Non-cash investing, capital and financing activities:	
During the year ended June 30, 2004, the District received \$3,605 of federal commodities.	

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2004

	Private Purpose Trust	Scholarship
Assets		
Cash and pooled investments	\$ 2,963	
Liabilities		
None	-	
Net assets		
Reserved for scholarships	\$ 2,963	
See notes to financial statements.		

NEW MARKET COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2004

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ <u>46</u>
Deductions:	
Support services:	
Scholarships awarded	<u>100</u>
Change in net assets	(54)
Net assets beginning of year, as restated (note 10)	<u>3,017</u>
Net assets end of year	\$ <u><u>2,963</u></u>

See notes to financial statements.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

New Market Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through eight. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of New Market, Iowa, and the agricultural territory in Taylor and Page Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, New Market Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. New Market Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Taylor County Assessor's Conference Board.

B. Basis of Presentation

District-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the main operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Special Revenue, Management Levy Fund is utilized to account for the payment of casualty and workers' compensation insurance and certain other employee related liabilities, including unemployment benefits.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	3,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave. The District's policy is not to reimburse employees for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability at June 30, 2004.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets – In the District-wide statement of net assets, the net asset balance invested in capital assets is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures in the instruction functional area exceeded the amount budgeted. Expenditures also exceeded the District's spending authority in the General Fund.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$154,696 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 3. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2003-04B	1/30/2004	1/28/2005	\$ 124,844	\$ 679	\$ 124,000	\$ 1,040
2004-05A	6/30/2004	6/30/2005	157,851	11	157,000	13
Total			<u>\$ 282,695</u>	<u>\$ 690</u>	<u>\$ 281,000</u>	<u>\$ 1,053</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund for the year ended June 30, 2004.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2003-04A	2.000%	1.050%
2003-04B	2.000%	1.392%
2004-05A	3.000%	2.463%

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as Restated (note 11)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,250	\$ -	\$ -	\$ 3,250
Capital assets being depreciated:				
Buildings	376,186 *	19,800	-	395,986
Improvements other than buildings	28,170	-	-	28,170
Furniture and equipment	136,923	27,766	-	164,689
Total capital assets being depreciated	541,279	47,566	-	588,845
Less accumulated depreciation for:				
Buildings	274,758	6,749	-	281,507
Improvements other than buildings	16,902	1,409	-	18,311
Furniture and equipment	121,021	7,235	-	128,256
Total accumulated depreciation	412,681	15,393	-	428,074
Total capital assets being depreciated, net	128,598	32,173	-	160,771
Governmental activities capital assets, net	\$ 131,848	\$ 32,173	\$ -	\$ 164,021

* = The beginning balance of buildings has been restated by an increase of \$16,186 to accurately reflect the cost of buildings at June 30, 2003.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 8,187	\$ -	\$ -	\$ 8,187
Less accumulated depreciation	<u>5,856</u>	<u>401</u>	<u>-</u>	<u>6,257</u>
Business-type activities capital assets, net	<u>\$ 2,331</u>	<u>\$ (401)</u>	<u>\$ -</u>	<u>\$ 1,930</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:

 Instruction:

 Other

\$ 631

 Support services:

 Operation and maintenance of plant services

1,935

 Transportation

4,669

7,235

Unallocated depreciation

8,158

Total governmental activities depreciation expense

\$ 15,393

Business-type activities:

 Food service operations

\$ 401

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 5. Operating Lease

The District is obligated under an equipment lease for two copiers accounted for an on operating lease.

Operating leases do not give rise to property rights or lease obligations and therefore are not included as capital assets or long-term liabilities in the District-wide financial statements. The agreement provides for monthly lease payments of \$583, which includes a maintenance agreement during the term of the lease.

The total noncancelable future minimum lease payments under the lease agreement are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 6,996
2006	6,996
2007	<u>1,166</u>
	<u>\$ 15,158</u>

The total payments under the agreement for the year ended June 30, 2004 were \$5,830.

Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute.

The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$35,131, \$36,896, and \$36,803 respectively, equal to the required contributions for each year.

Note 7. Risk Management

New Market Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 7. Risk Management (continued)

Each member's contributions to ISEBA fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$62,492.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

New Market Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$52,628 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 9. Budget Overexpenditure

Per the Code of Iowa, General Fund expenditures may not legally exceed the District's spending authority. During the year ended June 30, 2004, expenditures exceeded the District's spending authority by \$23,335.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 10. Restatement of Beginning Balances

The beginning balance of the Playground Fund has been reclassified from a Fiduciary, Expendable Trust Fund to a Capital Projects Fund to properly reflect the nature of the fund as shown below:

	Expendable Trust Fund	Capital Projects Fund
Beginning fund balance, as previously reported	\$ 12,682	\$ 8,587
Amount reclassified to capital projects fund	(9,665)	9,665
Beginning fund balance, as restated	<u>\$ 3,017</u>	<u>\$ 18,252</u>

Note 11. Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; were implemented during the year June 30, 2004. The statements create new basic financial statements for reporting the District’s financial activities. The financial statements now include District-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The District-wide financial statements separate the District’s programs between business-type and governmental activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 11. Accounting Change (continued)

	Fund			
	Special			
	Revenue			
	Management			
	General	Levy	Nonmajor	Total
Net assets, June 30, 2003, as previously reported	\$ <u>59,197</u>	\$ <u>110,094</u>	\$ <u>46,234</u>	\$ 215,525
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$412,681				131,848
Deferred revenue				<u>33,927</u>
Net assets, July 1, 2003, as restated				\$ <u>381,300</u>

Required Supplementary Information

NEW MARKET COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances – Budget and Actual (Accrual Basis) – All Governmental Funds and Proprietary Fund Required Supplementary Information Year Ended June 30, 2004

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
REVENUES:					
Local sources	\$ 649,510	\$ 20,123	\$ 669,633	\$ 657,329	\$ 12,304
State sources	764,402	668	765,070	814,094	(49,024)
Federal sources	126,196	26,877	153,073	107,500	45,573
Total revenues	1,540,108	47,668	1,587,776	1,578,923	8,853
EXPENDITURES:					
Instruction	1,030,676	-	1,030,676	1,015,067	(15,609)
Support services	415,446	-	415,446	467,749	52,303
Non-instructional programs	5,087	48,846	53,933	58,244	4,311
Other expenditures	85,445	-	85,445	116,148	30,703
Total expenditures	1,536,654	48,846	1,585,500	1,657,208	71,708
Excess (deficiency) of revenues over (under) expenditures	3,454	(1,178)	2,276	(78,285)	80,561
Other financing sources, net	550	-	550	-	550
Excess (deficiency) of revenues and other financing sources over (under) expenditures	4,004	(1,178)	2,826	(78,285)	81,111
Balance beginning of year	215,525	5,783	221,308	296,768	(75,460)
Balance end of year	\$ 219,529	\$ 4,605	\$ 224,134	\$ 218,483	\$ 5,651

See accompanying independent auditor's report.

NEW MARKET COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis. Encumbrances are not recognized and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, expenditures in the instruction functional area exceeded the amount budgeted. Expenditures also exceeded the District's spending authority in the General Fund.

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Other Supplementary Information

NEW MARKET COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004

	Special Revenue			
	Student	Physical	Capital	
	Activity	Plant and	Projects	Total
		Equipment		
		Levy		
Assets				
Cash and pooled investments	\$ 3,306	\$ 26,731	\$ 23,097	\$ 53,134
Receivables:				
Property tax:				
Current year	-	332	-	332
Succeeding year	-	10,452	-	10,452
Due from other governments	-	-	6,156	6,156
Total assets	<u>\$ 3,306</u>	<u>\$ 37,515</u>	<u>\$ 29,253</u>	<u>\$ 70,074</u>
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ -	\$ 10,452	\$ -	\$ 10,452
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>3,306</u>	<u>27,063</u>	<u>29,253</u>	<u>59,622</u>
Total liabilities and fund equity	<u>\$ 3,306</u>	<u>\$ 37,515</u>	<u>\$ 29,253</u>	<u>\$ 70,074</u>

See accompanying independent auditor's report.

NEW MARKET COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2004

	Special Revenue			
	Student	Physical	Capital	
	Activity	Plant and	Projects	Total
		Equipment		
		Levy		
Revenues:				
Local sources:				
Local tax	\$ -	\$ 11,456	\$ 22,813	\$ 34,269
Other	8,080	26	111	8,217
State sources	-	12	-	12
Federal sources	-	21,006	-	21,006
Total revenues	<u>8,080</u>	<u>32,500</u>	<u>22,924</u>	<u>63,504</u>
Expenditures:				
Current:				
Instruction:				
Other instruction	8,499	-	-	8,499
Support services:				
Administration services	-	-	244	244
Transportation services	-	6,467	-	6,467
Non instructional programs	-	-	2,089	2,089
Other expenditures:				
Facilities acquisition	-	23,227	9,590	32,817
Total expenditures	<u>8,499</u>	<u>29,694</u>	<u>11,923</u>	<u>50,116</u>
Excess (deficiency) of revenues over (under) expenditures	(419)	2,806	11,001	13,388
Fund balances beginning of year, as restated	<u>3,725</u>	<u>24,257</u>	<u>18,252</u>	<u>46,234</u>
Fund balances end of year	<u>\$ 3,306</u>	<u>\$ 27,063</u>	<u>\$ 29,253</u>	<u>\$ 59,622</u>

See accompanying independent auditor's report.

NEW MARKET COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Junior High - 7th & 8th	\$ 1,372	\$ 662	\$ 1,096	\$ 938
Library Club	518	1,101	1,140	479
Shows (Assemblies)	1,040	11	400	651
Boys' Little League	180	-	-	180
Instrumental Music (Band)	345	4,356	4,032	669
Care-A-Lot	14	-	-	14
Athletics	256	813	694	375
Student Book Club	-	1,137	1,137	-
Total	\$ <u>3,725</u>	\$ <u>8,080</u>	\$ <u>8,499</u>	\$ <u>3,306</u>

See accompanying independent auditor's report.

NEW MARKET COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 593,160	\$ 610,666	\$ 467,605	\$ 522,341
Tuition	34,015	17,346	28,039	29,392
Other	22,335	19,235	36,017	30,048
State sources	764,402	759,070	799,215	804,914
Federal sources	126,196	46,221	32,017	45,649
Total revenues	<u>\$ 1,540,108</u>	<u>\$ 1,452,538</u>	<u>\$ 1,362,893</u>	<u>\$ 1,432,344</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 731,033	\$ 672,747	\$ 661,466	\$ 646,667
Special instruction	277,280	267,402	271,870	262,045
Other instruction	22,363	19,918	26,288	32,908
Support services:				
Student services	89	80	124	169
Instructional staff services	21,521	29,672	49,928	51,679
Administration services	166,595	173,550	167,544	165,194
Operation and maintenance of plant services	131,150	116,305	105,995	124,005
Transportation services	96,091	65,213	67,714	71,345
Non-instructional programs	5,087	577	749	674
Other expenditures:				
Facilities acquisition	32,817	9,893	4,910	2,881
AEA flowthrough	52,628	56,126	57,069	59,210
Total expenditures	<u>\$ 1,536,654</u>	<u>\$ 1,411,483</u>	<u>\$ 1,413,657</u>	<u>\$ 1,416,777</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education of
New Market Community School District:

We have audited the financial statements of New Market Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether New Market Community School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about New Market Community School District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item II-B-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Market Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of New Market Community School District and other parties to whom New Market Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of New Market Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
August 13, 2004

NEW MARKET COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

- I-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that all cash receipts and cash disbursements are all done by the same person. However, the principal reviews all bank reconciliations and invoices.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to investigate alternatives and implement wherever possible.

Conclusion – Response accepted.

- I-B-04 Fundraisers. We noted that fundraisers of student organizations are not approved by the administration. Also, the control procedures over fundraising activities are very lax.

Recommendation – The District should ensure that all fundraisers are reviewed and approved by the appropriate member of the administration before the event occurs. Also, a listing of the ongoing fundraising activities should be provided to the appropriate accounting personnel. An accounting of the estimated and actual receipts, disbursements and profit of each activity should be prepared by the student organization and submitted with the money collected to the appropriate office personnel for review. The office personnel should be responsible for keeping track of the ongoing fundraisers and ensuring that the collected funds are remitted to the office and deposited on a timely basis. Fundraiser collections and deposits less expenses should reconcile with calculated fundraiser net profit. Implementation of these controls would further secure that all cash collected by the fundraiser has been deposited and recorded.

Response – We will review our procedures regarding fundraising activities and change our procedures as we deem necessary.

Conclusion – Response accepted.

NEW MARKET COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget – Expenditures for the year ended June 30, 2004, exceeded the amount budgeted in the instruction functional area. Expenditures also exceeded the District's spending authority by approximately \$23,335.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget. The District should contact the Department of Management to resolve the matter of exceeding the spending authority.

Response – We will amend our budget before expenditures exceed the budget and contact the Department of Management about the spending authority.

Conclusion – Response accepted.

II-C-04 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted. However, we noted an instance where two District officials were reimbursed mileage from the same support documentation for a meeting where each drove separately.

Recommendation – Each individual should support their own travel expenses.

Response – We will require separate documentation for each individual's travel expenses.

Conclusion – Response accepted.

II-E-04 Business Transactions – We noted no business transactions between the District and District officials or employees.

II-F-04 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

II-H-04 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

II-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

NEW MARKET COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting (continued):

II-J-04 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-K-04 Financial Condition – The General Fund has a negative unreserved, undesignated fund balance of \$9,850.

Recommendation – The District needs to explore alternatives to restore the General Fund to a sound financial condition.

Response – The Board is aware of the condition and has increased the General Fund property tax levy by \$40,000 for the year ending June 30, 2005.

Conclusion – Response accepted.

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